

CALIFORNIA COASTAL COMMISSION

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**W 18e**

Filed: November 17, 2005
49th Day: January 5, 2006
180th Day: May 16, 2006 (waived)
270th Day: August 14, 2006
Staff: Anne Blemker-LB
Staff Report: April 26, 2006
Hearing Date: May 10-12, 2006
Commission Action:

STAFF REPORT: REGULAR CALENDAR

APPLICATION NUMBER: 5-05-385

APPLICANT: Seal Beach Six, Inc.

AGENT: Randy Allison

PROJECT LOCATION: 202-212 5th Street, Seal Beach, Orange County

PROJECT DESCRIPTION: Demolition of an existing 23-room hotel (Seal Beach Inn) and construction of six 24'7" high, 2-story, 2,877 square foot single-family residences with attached 416 square foot 2-car garages, fencing, hardscape improvements and landscaping on each of the six 2,937 square foot lots.

LOCAL APPROVALS RECEIVED: City of Seal Beach Approval in Concept dated September 20, 2005 and Conditional Use Permit 1-87.

SUBSTANTIVE FILE DOCUMENTS: Coastal Lodging Market Analysis prepared by PKF Consulting; 5-99-169 (Maguire Partners), A-5-RPV-02-324 (Destination Development); and A-4-SBC-01-167 (S.B. Beach Properties, L.P., City of Santa Barbara Redevelopment Agency); 5-89-240 (Michael Construction Enterprises) and P-79-5539 and 5-82-291 (AVCO).

SUMMARY OF STAFF RECOMMENDATION:

The applicant is proposing to demolish an existing bed and breakfast known as the Seal Beach Inn and construct six new single-family residences. The major issue of this staff report is protection and encouragement of visitor-serving land uses in prime coastal tourism areas. Staff is recommending approval of the proposed project with three (3) special conditions, which require: 1) compliance with construction-related best management practices (BMPs); 2) conformance with the proposed water quality measures (including landscaping controls); and 3) payment of an in lieu fee to mitigate the loss of visitor-serving commercial development.

Section 30600(c) of the Coastal Act provides for the issuance of coastal development permits directly by the Commission in regions where the local government having jurisdiction does not have a certified Local Coastal Program. The City has not exercised the options provided in 30600(b) or 30600.5 to issue its own permits. Therefore, the Coastal Commission is the permit issuing entity and the standard of review is Chapter 3 of the Coastal Act.

LIST OF EXHIBITS:

1. Vicinity Map
2. Assessor's Parcel Map
3. Project Plans
4. Analysis of Coastal Lodging Market by PKF Consulting prepared March 2, 2006
5. Correspondence from Property Owner dated April 10, 2006
6. Correspondence from Hostelling International dated December 14, 2004

STAFF RECOMMENDATION:

Staff recommends that the Commission **APPROVE** the permit application with special conditions.

MOTION:

I move that the Commission approve CDP #5-05-385 pursuant to the staff recommendation.

Staff recommends a **YES** vote. This will result in approval of the permit as conditioned and adoption of the following resolution and findings, as set forth in this staff report or as modified by staff prior to the Commission's vote. The motion passes only by affirmative vote of a majority of the Commissioners present.

The staff recommends that the Commission adopt the following resolution:

I. APPROVAL WITH CONDITIONS

The Commission hereby approves a coastal development permit for the proposed development and adopts the findings set forth below on grounds that the development as conditioned will be in conformity with the policies of Chapter 3 of the Coastal Act and will not prejudice the ability of the local government having jurisdiction over the area to prepare a Local Coastal Program conforming to the provisions of Chapter 3. Approval of the permit complies with the California Environmental Quality Act because either 1) feasible mitigation measures and/or alternatives have been incorporated to substantially lessen any significant adverse effects of the development on the environment, or 2) there are no further feasible mitigation measures or alternatives that would substantially lessen any significant adverse impacts of the development on the environment.

II. STANDARD CONDITIONS:

1. **Notice of Receipt and Acknowledgment.** The permit is not valid and development shall not commence until a copy of the permit, signed by the permittee or authorized agent, acknowledging receipt of the permit and acceptance of the terms and conditions, is returned to the Commission office.
2. **Expiration.** If development has not commenced, the permit will expire two years from the date this permit is reported to the Commission. Development shall be pursued in a diligent manner and completed in a reasonable period of time. Application for extension of the permit must be made prior to the expiration date.
3. **Interpretation.** Any questions of intent or interpretation of any condition will be resolved by the Executive Director or the Commission.

4. Assignment. The permit may be assigned to any qualified person, provided assignee files with the Commission an affidavit accepting all terms and conditions of the permit.
5. Terms and Conditions Run with the Land. These terms and conditions shall be perpetual, and it is the intention of the Commission and the permittee to bind all future owners and possessors of the subject property to the terms and conditions.

III. SPECIAL CONDITIONS:

1. Storage of Construction Materials, Mechanized Equipment and Removal of Construction Debris

The permittee shall comply with the following construction-related requirements:

- (a) No construction materials, debris, or waste shall be placed or stored where it may enter a storm drain leading to the ocean;
- (b) Any and all debris resulting from construction activities shall be removed from the project site within 24 hours of completion of construction;
- (c) Erosion control/sedimentation Best Management Practices (BMPs) shall be used to control sedimentation impacts to coastal waters during construction. BMPs shall include, but are not limited to: placement of sand bags around drainage inlets to prevent runoff/sediment transport into the storm drain system and a pre-construction meeting to review procedural and BMP guidelines;
- (d) Construction debris and sediment shall be removed from construction areas each day that construction occurs to prevent the accumulation of sediment and other debris which may be discharged into coastal waters. Debris shall be disposed at a debris disposal site outside the coastal zone.

2. Water Quality/Landscaping

The applicant shall conform with the Grading Plan received by the Coastal Commission on November 17, 2005 showing roof drainage and runoff from all impervious areas directed to trench drains and landscaped areas wherever possible. Vegetated landscaped areas shall only consist of native plants or non-native, non-invasive, drought tolerant plants. Any proposed changes to the approved plan shall be reported to the Executive Director. No changes to the approved plan shall occur without a Commission amendment to this coastal development permit unless the Executive Director determines that no amendment is required.

3. In-Lieu Fee

For purposes of this condition, the acronym "LAC-AYH" means the Los Angeles Council of American Youth Hostels, Inc., and the term "AYH Agreement" refers to the June 26, 2002 agreement between the Coastal Commission and LAC-AYH regarding the use of funds for the creation of low-cost overnight accommodations.

PRIOR TO THE ISSUANCE OF THIS COASTAL DEVELOPMENT PERMIT, but only after the Executive Director of the Coastal Commission has indicated, in writing, that the

Commission has entered into an agreement (the “New Agreement”) modeled upon the AYH Agreement (but not necessarily with AYH), the applicant shall provide, through a financial instrument subject to the review and approval of the Executive Director, a mitigation fee of not less than \$87,810 (\$14,635 per new single-family residence) payable to the public agency or private non-profit association designated in the New Agreement, to be used generally for the acquisition of land and/or construction of a low-cost visitor serving hostel facility or campsites in the coastal area of Orange or Los Angeles County and specifically in accordance with the terms and conditions of the New Agreement.

IV. FINDINGS AND DECLARATIONS:

The Commission hereby finds and declares:

A. Project Description and Location

The subject site consists of six contiguous inland lots within a residential neighborhood at 202-212 5th Street, Seal Beach, Orange County (Exhibits 1 and 2). The site is currently developed with a 23-room bed and breakfast known as the Seal Beach Inn. The existing hotel and associated improvements span the six lots. The City of Seal Beach General Plan designates land use for the project site as Residential High Density (RHD). Accordingly, the commercial use at this site is an existing non-conforming use.

The applicant is proposing to demolish the existing 23-room hotel and construct six single-family residences with fencing, hardscape improvements and landscaping (Exhibit 3). As proposed, one 24’7” high, 2-story, 2,877 square foot residence with an attached 416 square foot 2-car garage will be constructed on each of the six 2,937 square foot lots. The project proponent is the developer in contract to purchase the property from the current owner and operator of the Seal Beach Inn.

The current owner states that a hotel use at the site is no longer economically viable due to upkeep and maintenance expenses, staffing costs, and lack of demand in the subject area. The owner has unsuccessfully attempted to sell the property for continued hotel operation, as will be discussed in Section C.

B. History of Subject Site and Vicinity

The subject property has been in continual commercial use for at least the past thirty years. No coastal development permit applications have ever been submitted for development at the subject site. According to information provided by the current property owner, the site was originally constructed as an “apartment motel” in 1940 and subsequently used for monthly, weekly and sometimes shorter stays (Exhibit 4). The current owner purchased the property in 1976 and made mainly cosmetic improvements to the property to create a bed and breakfast.

In 1987, the City adopted an ordinance redefining the term “hotel” and revising the regulations for hotels. In the Residential High Density (RHD) zone, hotels lawfully existing on January 1, 1987 were deemed eligible for a conditional use permit. Under the provisions of this ordinance, the Seal Beach Inn received CUP 1-87 to continue operation of the hotel and to “*establish the ancillary services to be permitted in conjunction with the existing hotel use.*” According to City staff, the site has been designated residentially since the 1950s.

C. Visitor Serving Development

Section 30213 of the Coastal Act states:

Lower cost visitor and recreational facilities shall be protected, encouraged, and where feasible, provided. Developments providing public recreational opportunities are preferred.

Section 30222 of the Coastal Act states:

The use of private lands suitable for visitor-serving commercial recreational facilities designed to enhance public opportunities for coastal recreation shall have priority over private residential, general industrial, or general commercial development, but not over agriculture or coastal-dependent industry.

Section 30223 of the Coastal Act states:

Upland areas necessary to support coastal recreational uses shall be reserved for such uses, where feasible.

The Coastal Act places a higher priority on visitor-serving commercial uses than on private residential uses. Visitor-serving uses provide greater public benefit than private residential uses because a larger segment of the population is able to take advantage of and enjoy the use. In addition, visitor-serving commercial areas provide services to the visiting beach user, including providing places to stay overnight, dine and shop.

The location of the proposed project is on the seaward side of Pacific Coast Highway less than ¼ mile from the nearest publicly accessible beach. The site is located four blocks northwest (upcoast) of Main Street (Old Town Center), the primary visitor-serving commercial area of Seal Beach. The Seal Beach Inn is one of only two hotels located on the seaward side of Pacific Coast Highway in Seal Beach¹.

As a bed and breakfast, the site currently provides an amenity to visitors to the coast. The hotel offers 23 rooms ranging in price from approximately \$165 to \$325 per night. This room rate is equal to or slightly higher than the other two hotels currently available in the City of Seal Beach (i.e. The Pacific Inn and The Ayres Hotel). Based on the room rate, the Seal Beach Inn is not considered a lower-cost visitor-serving facility. However, the site still represents a valuable visitor-serving use in a prime tourism area. The rate is still within the average rate range for overnight accommodations in the Orange County coastal zone. Access to coastal recreational facilities is enhanced when there are overnight accommodations for all economic sectors of the public.

In order to assess the effect the proposed project would have upon overnight accommodations in Seal Beach, the applicant submitted an analysis of the coastal lodging market prepared by PKF Consulting dated March 2, 2006 (Exhibit 4). This analysis evaluates the overall Long Beach, Seal Beach, Sunset Beach and Huntington Beach coastal lodging supply, as well as presents historical performance of a sample set of hotels therein. The analysis includes projected additions to the hotel supply within the next five years, including a proposed 110-room Hampton Inn at the Boeing property (CDP Application No. 5-03-355-A1 to be heard at May 2006 hearing), which would be located about 1½ miles inland of the beach, at the corner of Seal Beach Boulevard and Westminster Avenue. The report concludes, *“the coastal lodging supply, given the number of additions in the coming years, the historical performance of the current supply, and the limited*

¹ The Pacific Inn (70 rooms) is located at 600 Marina Drive, immediately inland of the Old Town Center. There is a third hotel within the City of Seal Beach, The Ayres Hotel (104 rooms) at 12850 Seal Beach Boulevard; however, it is several miles from the beach, inland of Interstate 405.

room count at the subject site, would not be negatively impacted due to the deletion of the subject's rooms."

Many of the hotels referenced in the comparative analysis by PKF are located quite a distance from the subject site and represent a very different type of overnight accommodation. For example, the study includes the Hyatt Huntington Beach in the "Historical Market Supply". The Hyatt is a high-end 517-room hotel located approximately 10 miles south of the Seal Beach Inn site. The Seal Beach Inn is a 23-room bed and breakfast offering a substantially different experience. The PKF study also discusses new rooms to be added to the Seal Beach market. The rooms to be added are located considerably inland from the project site, including the new 110-room Hampton Inn at the Boeing property. The Boeing property is located over 1 mile from the shoreline.

The Seal Beach Inn is a small bed and breakfast located within walking distance to the beach and downtown commercial area. The subject site offers a unique accommodation in a beach-close atmosphere. It could be argued that Hyatt and other hotels used in the study do not represent an example of comparable overnight accommodations due to their geographic differences and the type of hotel accommodation they provide. It is important to provide a range of accommodation types and price ranges to visitors of the coast. While some members of the public may prefer large, modern hotels, others may prefer smaller boutique hotels. The provision of a variety of overnight accommodations enhances the visitor's coastal experience.

The current owner has submitted an exhaustive listing of her attempts to sell the subject property to a hotel operator for continued use as a bed and breakfast (Exhibit 5). The owner has provided information dating back to 1991, including letters from prospective buyers. Many of the potential buyers decided that the property would not make a sufficient return on their investment. As stated in one letter, *"[w]e found that the investment return as an inn did not make the acquisition feasible. What led us to this conclusion was the seasonal rental income and age of the buildings and the availability of other inexpensive hotel rooms in the Seal Beach area."* (The term "inexpensive" was not defined.)

Many existing overnight accommodation structures are older facilities, which already have or will undergo renovation, either to upgrade the amenities offered to keep pace with newer facilities and/or to meet current building codes, including seismic standards. As more recycling of these facilities occurs, the stock of mid and lower-cost overnight accommodations will be reduced because, in general, it is not economically feasible to replace or renovate these facilities without passing on the construction cost to guests. As discussed more fully below, continued operation of the site as a mid-range bed and breakfast and/or re-investment in the site to create upgrades may not be likely, however, the facility could conceivably operate as a lower-cost overnight accommodation. Given the condition of this structure, the hotel would likely be downgraded over time to a lower-cost facility. If the applicant were prohibited from re-developing the site with another use and the facility deteriorated over time, the market for the use would likely shift to lower-cost.

As explained in both the PKF analysis and the owner's correspondence, site conditions limit the attractiveness of the site for commercial investment and the suitability of the site for continued hotel use. The current owner has stated that the structure needs substantial repairs, including a new roof, seismic upgrades, and plumbing improvements. The owner also notes that the hotel is surrounded by residential development and does not provide sufficient on-site parking to support the current hotel use (11 spaces). There is also neighborhood opposition to the continued use of the site as a hotel due to the on-going parking, noise, and delivery concerns. The City has indicated that they would not approve another commercial use at the site, due to the land use/zoning inconsistency (the site is designated for residential use (RHD zone) which doesn't allow for new commercial development). At this site, there is inherent difficulty retaining it as a visitor-

servicing use over the long-term given the surrounding uses, local zoning, and condition of the structure. Therefore, use of the site for residential purposes is acceptable provided there is some offset for the loss of the facility.

Where conditions effectively prohibit the retention of existing overnight accommodations, the Commission has imposed a per unit mitigation fee to be used to provide alternative overnight visitor-serving accommodations. Recent examples in the South Coast District include 5-99-169 (Maguire Partners) and A-5-RPV-02-324 (Destination Development). Older examples include P-79-5539/5-82-291 (AVCO) and 5-89-240 (Michael Construction).

Application No. 5-99-169 (Maguire) involved the demolition of an 81-unit motel and construction of an office building. The applicant was required to provide evidence that a mitigation fee of \$648,000 (\$8,000 per room lost) had been provided to the City of Santa Monica for the removal of low cost overnight visitor accommodations. Adjusted for the U.S. Consumer Price Index (CPI) that figure would be \$9,686.08 per room lost.

A-5-RPV-02-324 (Destination Development) involved the development of a site that was previously a low-cost recreational facility (Marineland) with a new high-cost resort hotel. Previously, in mitigating the abandonment of Marineland, a mass-market park, the Commission had required that the applicant provide an in-lieu fee for the acquisition of land and/or construction of a low-cost visitor serving hostel facility (A-5-RPV-91-46). The subsequent permit (A-5-RPV-02-324) carried that requirement forward, requiring the applicant to remit a fee of \$540,000 to American Youth Hostel (AYH) facilities or another agency that could provide low-cost overnight accommodations. Adjusted for CPI that figure would be \$799,515. The fee was to be applied toward the renovation of 60 hostel units, thereby resulting in a per unit allocation of \$13,325.

P-79-5539 and 5-82-291 (AVCO) involved the construction of a new 397-room high-end resort in Laguna Niguel, Orange County. The AVCO permit required that 1 out of every 3 new overnight units be low cost (132 of 397). The applicant was required to *“construct and operate (or cause to be operated) 132 units of lower cost visitor accommodations consisting of at a minimum a 66-bed youth hostel built to the standards of the American Youth Hostel Association, the balance in moderate priced motel units.”*

In 5-89-240 (Michael Construction Enterprises), the Commission approved the demolition of a low-cost 30-room motel and construction of a 62-room hotel. The applicant was required to pay \$255,450 (\$8,515 per low-cost room lost) to the City of Santa Monica to mitigate the loss of the low cost visitor serving accommodations. Adjusted for CPI, that figure would be \$13,919.

An in-lieu fee requirement was also imposed by the City of Santa Barbara for conversion of lower cost overnight accommodations to condominiums (see A-4-SBC-01-167). In that case, the City of Santa Barbara, as a condition of approval of CDP 2001-00008(A), required the applicant to provide to the City Redevelopment Agency a mitigation fee in the amount of \$982,000 for loss of 96 hotel rooms. The figure was based on a study that concluded that an amount of \$982,000 would be the amount of subsidy required to make development of a 96-room economy transient lodging facility in Santa Barbara economically feasible. The per room fee came to \$10,229. Adjusted for CPI, that figure would be \$11,597 per room.

In-lieu fees can be utilized to provide replacement overnight accommodations in various forms throughout the State, including hostels, motels, and campsites. There is an ongoing demand for overnight accommodations of all types within the coastal zone. As the population in Southern California grows, there will be an increased demand for a variety of visitor-serving commercial uses, including overnight accommodations, in coastal areas. An adequate supply of such uses will

be required to support the larger number of people visiting the coastal zone. While the subject site may not be suitable for re-development as an overnight accommodation facility, other locations within the surrounding area may be more suitable for this purpose, such as those in commercially designated and developed areas with visibility from major thoroughfares or vacant land adjacent to the beach and San Gabriel River, such as the former DWP site on First Street.

The Commission finds that the proposed project will in fact eliminate overnight accommodations at a site that has previously provided a visitor-serving opportunity in a prime coastal tourism area of Seal Beach. The applicant must mitigate the loss of the existing visitor-serving use of the site. Toward that end, the applicant must pay an in-lieu fee for each of the six single-family residences to be constructed.

The Commission's past practice with regard to calculation of in-lieu fees for loss of overnight accommodations has varied given project specific circumstances. In some instances, the fee has been calculated based upon the quantity of overnight units lost (e.g. A-4-SBC-01-167, 5-99-169). In other instances, the calculation was based upon some percentage of non-lower cost overnight units proposed (e.g. P-79-5539). These other cases include larger scale projects (i.e. dozens to hundreds of residential and hotel units) than the current proposal, which would result in the construction of six single-family residences. In fairness, it is important to choose an approach that yields a figure that is proportionate to the scale of the development being proposed. In this case, rather than calculating the fee based on the number of units lost (23), the Commission will utilize six (6), the number of non-lower cost overnight units proposed. This does not represent the approach the Commission would take in all other circumstances that involve smaller scale projects; nevertheless, it is deemed appropriate in this case.

Through Special Condition 3, the project is conditioned to provide a mitigation fee to a public or non-profit agency in the amount of \$87,810 (\$14,635 per new single-family residence or \$14,635 x 6) to be used for land acquisitions and/or construction of overnight visitor-serving accommodations, such as hostel facilities or campsites. The in-lieu fees are intended to offset the loss of overnight accommodations in the region.

The fee amount was established using a figure provided in a letter from Hostelling International dated December 14, 2004 outlining the Commission's per bed allocation of mitigation funds to be used toward the cost of creating new overnight accommodations in nearby Santa Monica (Exhibit 6). The Commission released the funds from an in lieu fee mitigation account (\$1,661,129), which was designated to be used for 121 beds (\$13,728 per bed). Adjusted for CPI, that figure is \$14,635. In the Santa Monica example, in lieu fees from prior projects were used primarily for construction costs and did not cover all expenses associated with creating new low cost overnight accommodations. Additional funding sources were required. Additionally, the Santa Monica property was already purchased, so the mitigation funds were not required for land costs. The \$13,728 contribution does not represent the total cost of creating a new overnight accommodation. That figure is likely much higher, particularly if land acquisition was added into it. Thus, the fee required in this case (\$14,635 per unit) is conservative.

The \$87,810 in mitigation fees from the current project will be applied toward land costs, construction and some limited administrative costs. This fee is not based on the cost of like-for-like replacement (replacing a mid-price range hotel with a mid-price range hotel), but is based on the cost of replacing a hotel with a lower-cost facility off-site or a portion thereof. In this sense, the mitigation fee is, again, quite conservative. The amount will represent a relatively small percentage of the final price of the six new single-family residences.²

² Similar single-family residences in the subject area are currently being offered at over \$1.5 million.

Non-profit agencies such as American Youth Hostel (AYH) construct and operate youth hostels in surrounding areas, including an anticipated project in Long Beach. There may also be other public or non-profit entities that are capable of providing overnight accommodations. The in-lieu fee will be used by whatever entity the Executive Director identifies and with whom he is able to enter into an agreement for the use of the funds, as indicated above, and it will be used to provide lower cost accommodations such as hostels or campsites in the Los Angeles or Orange Coast coastal region, thereby mitigating the loss of an existing overnight accommodation.

The in-lieu fee requirement in this case is consistent with other Commission actions in the South Coast District, including recent actions in the City of Santa Monica and Rancho Palos Verdes, as discussed previously. The fee required is comparable to the fees previously imposed, as adjusted for CPI.

Only as conditioned will the proposed project conform with prior actions of the Coastal Commission and Sections 30213, 30222 and 30223 of the Coastal Act.

D. Public Access/Parking

Section 30210 of the Coastal Act states:

In carrying out the requirement of Section 4 of Article X of the California Constitution, maximum access, which shall be conspicuously posted, and recreational opportunities shall be provided for all the people consistent with public safety needs and the need to protect public rights, rights of private property owners, and natural resource areas from overuse.

Section 30212.5 of the Coastal Act states:

Wherever appropriate and feasible, public facilities, including parking areas or facilities, shall be distributed throughout an area so as to mitigate against the impacts, social and otherwise, of overcrowding or overuse by the public of any single area.

Section 30252 of the Coastal Act states in relevant part:

The location and amount of new development should maintain and enhance public access to the coast by ... (4) providing adequate parking facilities or providing substitute means of serving the development with public transportation...

The access policies of the Coastal Act require the protection of public access to the beach. When a private development does not provide adequate on-site parking and the options for public transportation are as limited as they are in this area, patrons of that development must use off-site public parking spaces that would otherwise be available to the public, including visitors to the coastal zone. This results in significant adverse impacts upon coastal access. Therefore, an adequate quantity of on-site parking spaces sufficient to meet the demands of the development ensures that public parking spaces and public access are not adversely affected by the proposed development.

The proposed development provides two parking spaces per residential unit. Each property will have a two-car garage accessed from the alley. This is consistent with the Commission's previous actions finding that two parking spaces per residential unit is adequate to satisfy the parking demand for residential use. Additionally, the project will reduce the current parking demand generated by the existing hotel use, thereby freeing on-street parking previously used by staff and guests.

The proposed project provides adequate on-site parking for the proposed development and increases the availability of public parking spaces. Therefore, the Commission finds the proposed project is consistent with the public access policies of the Coastal Act.

E. Water Quality

Section 30230 of the Coastal Act states, in pertinent part:

Marine resources shall be maintained, enhanced, and where feasible, restored.

Section 30231 of the Coastal Act states.

The biological productivity and the quality of coastal waters, streams, wetlands, estuaries, and lakes appropriate to maintain optimum populations of marine organisms and for the protection of human health shall be maintained and, where feasible, restored through, among other means, minimizing adverse effects of waste water discharges and entrainment, controlling runoff, preventing depletion of ground water supplies and substantial interference with surface water flow, encouraging waste water reclamation, maintaining natural vegetation buffer areas that protect riparian habitats, and minimizing alteration of natural streams.

The proposed development has a potential for a discharge of polluted runoff from the project site into coastal waters. Accordingly, appropriate construction and post-construction measures must be taken to ensure the protection of water quality.

During construction, the applicant will be required to implement best management practices (BMPs) designed to minimize erosion and prevent debris from entering the adjacent storm drain system. Special Condition 1 requires compliance with construction-related best management practices (BMPs).

The applicant proposes water quality measures consisting of the installation of trench drains within the side yards of each residence. Small landscaped areas are also proposed along the street frontage. The proposed plant palette was not provided. Landscaping must consist of non-invasive, drought-tolerant plants. The placement of vegetation that is considered to be invasive which could supplant native vegetation should not be allowed. Invasive plants have the potential to overcome native plants and spread quickly. Invasive plants are generally those identified by the California Invasive Plant Council (<http://www.cal-ipc.org/>) and California Native Plant Society (www.CNPS.org) in their publications. Furthermore, any plants proposed should be drought tolerant to minimize the use of water. The less water that must be used to support the vegetation, the less runoff is likely to occur from the site, and thus, the smaller the introduction of pollutants into the receiving waters. The term drought tolerant is equivalent to the terms 'low water use' and 'ultra low water use' as defined and used by "A Guide to Estimating Irrigation Water Needs of Landscape Plantings in California" prepared by University of California Cooperative Extension and the California Department of Water Resources dated August 2000 available at <http://www.owue.water.ca.gov/landscape/pubs/pubs.cfm>. Special Condition 2 requires conformance with the proposed water quality measures (including landscaping controls).

The development, as proposed and as conditioned, incorporates design features to minimize the effect of construction and post-construction activities on the marine environment. These design features include, but are not limited to, the appropriate management of equipment and construction materials, reducing runoff through the use of permeable surfaces, the use of non-invasive drought

tolerant vegetation to reduce and treat the runoff discharged from the site, and for the use of post-construction best management practices to minimize the project's adverse impact on coastal waters. Therefore, the Commission finds that the proposed development, as conditioned, conforms with Sections 30230 and 30231 of the Coastal Act regarding the protection of water quality to promote the biological productivity of coastal waters and to protect human health.

F. Local Coastal Program

Section 30600(c) of the Coastal Act provides for the issuance of coastal development permits directly by the Commission in regions where the local government having jurisdiction does not have a certified local coastal program. Pursuant to section 30604(a), the permit may only be issued if the Commission finds that the proposed development will not prejudice the ability of the local government to prepare a Local Coastal Program which conforms with the Chapter 3 policies of the Coastal Act.

On July 28, 1983, the Commission denied the City of Seal Beach Land Use Plan (LUP) as submitted and certified it with suggested modifications. The City did not act on the suggested modifications within six months from the date of Commission action. Therefore, pursuant to Section 13537(b) of Title 14 of the California Code of Regulations, the Commission's certification of the land use plan with suggested modifications expired. The LUP has not been resubmitted for certification since that time.

As conditioned, the proposed development is consistent with the Chapter Three policies of the Coastal Act. Therefore, the Commission finds that the proposed development would not prejudice the ability of the City to prepare a certified coastal program consistent with the Chapter Three policies of the Coastal Act.

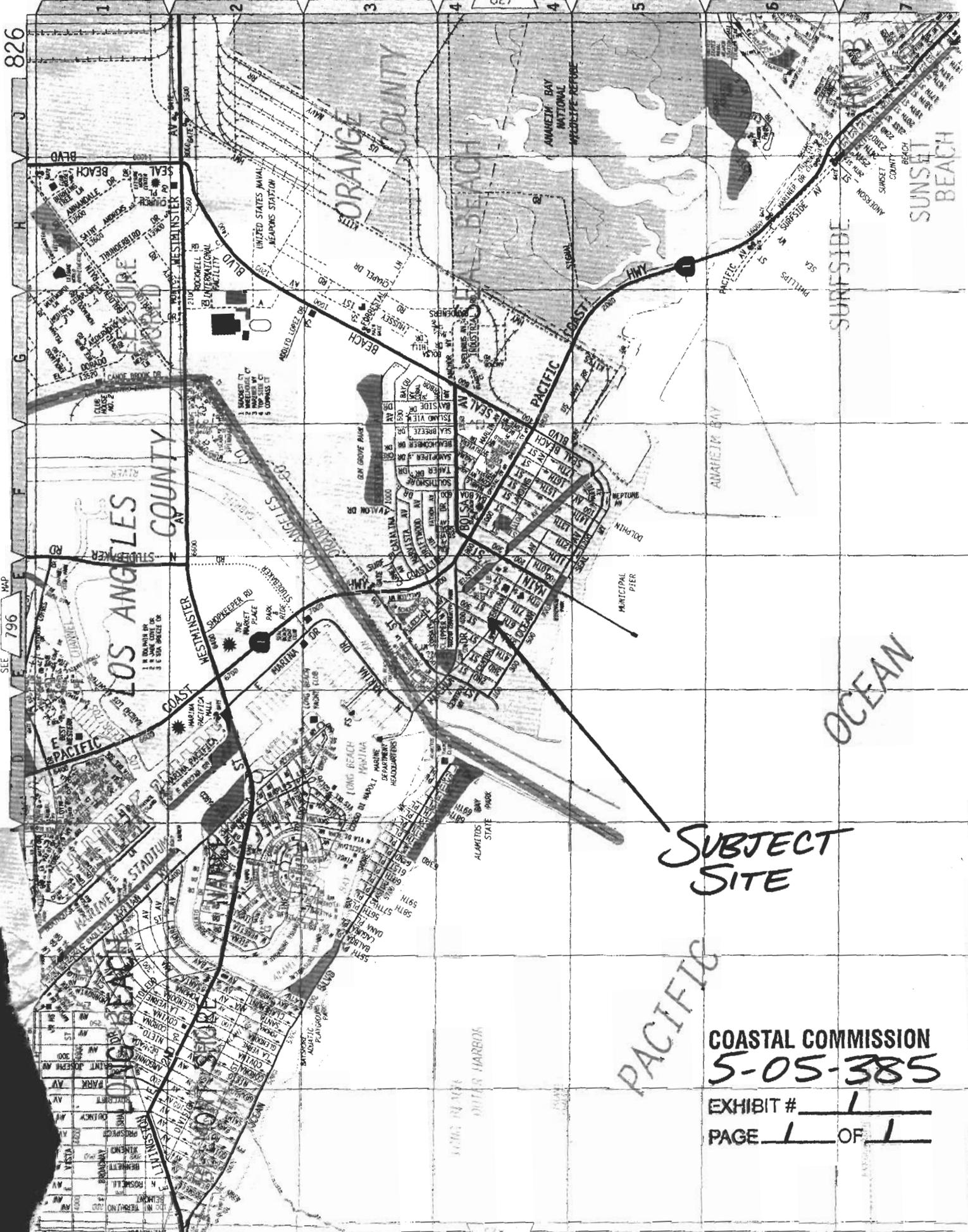
G. California Environmental Quality Act

Section 13096 of Title 14 of the California Code of Regulations requires Commission approval of Coastal Development Permits to be supported by a finding showing the permit, as conditioned by any conditions of approval, to be consistent with any applicable requirements of the California Environmental Quality Act (CEQA). Section 21080.5(d)(2)(A) of CEQA prohibits a proposed development from being approved if there are feasible alternatives or feasible mitigation measures available which would substantially lessen any significant adverse effect which the activity may have on the environment.

The proposed project, as conditioned, has been found to be consistent with the public access, recreation, and water quality policies of the Coastal Act. Mitigation measures, in the form of special conditions, are imposed which require: 1) compliance with construction-related best management practices (BMPs) 2) conformance with the proposed water quality measures (including landscaping controls) and 3) payment of an in lieu fee to mitigate the loss of visitor-serving commercial development. No further alternatives, or mitigation measures, beyond those imposed by this permit, would substantially lessen any significant adverse impacts that the development would have on the environment. Therefore, the Commission finds that the proposed project can be found consistent with the requirements of the Coastal Act to conform to CEQA.

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SEE 796 MAP



SUBJECT SITE

COASTAL COMMISSION
5-05-385

EXHIBIT # L
PAGE 1 OF 1

100' OWNER & OCCUPANT MAP

202 5TH STREET
SEAL BEACH, CA 90740

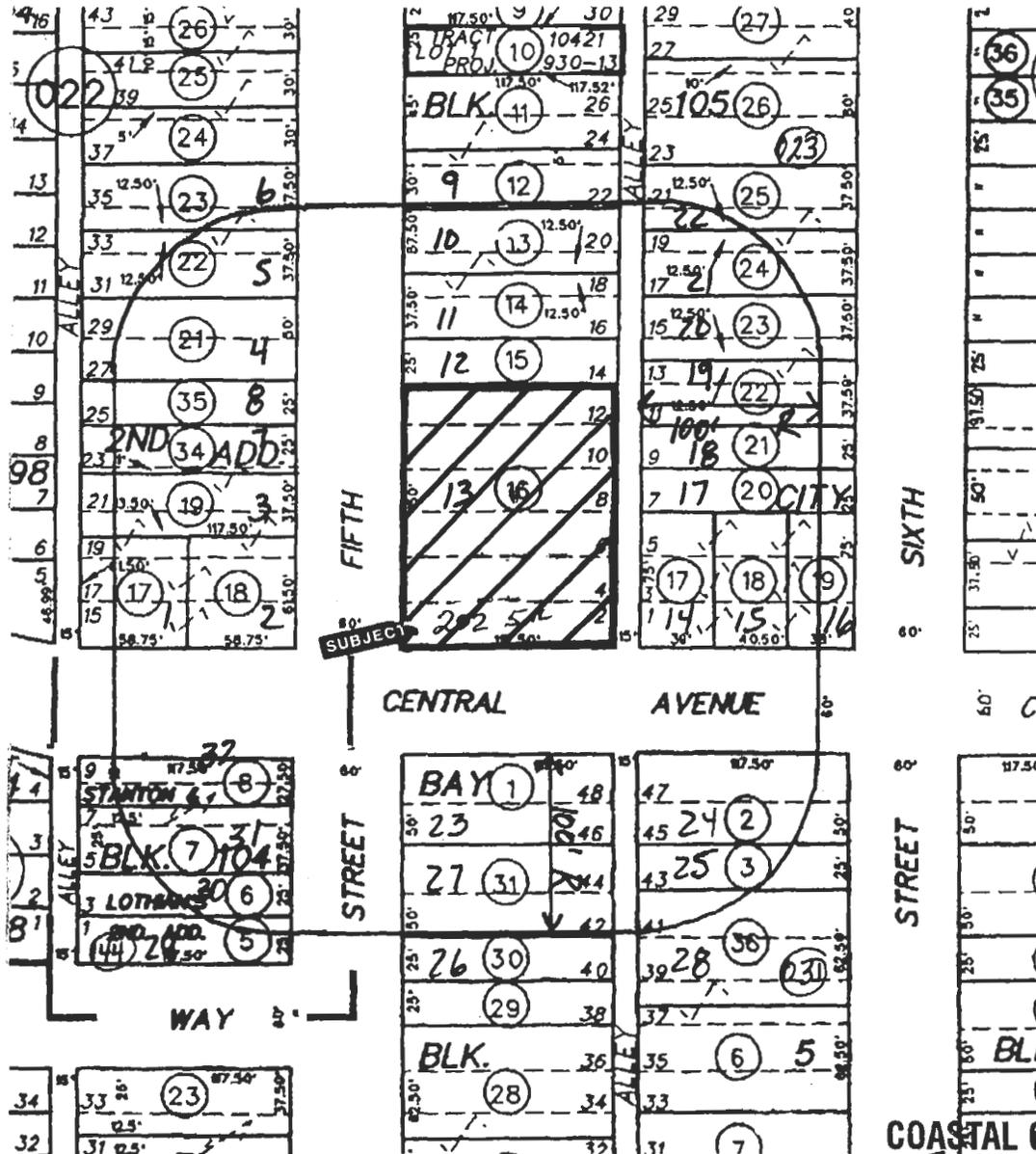
1" = 100'

RECEIVED
South Coast Region

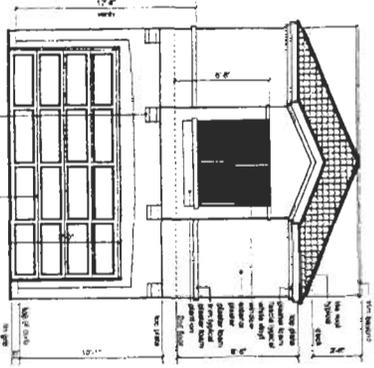
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CALIFORNIA
COASTAL COMMISSION

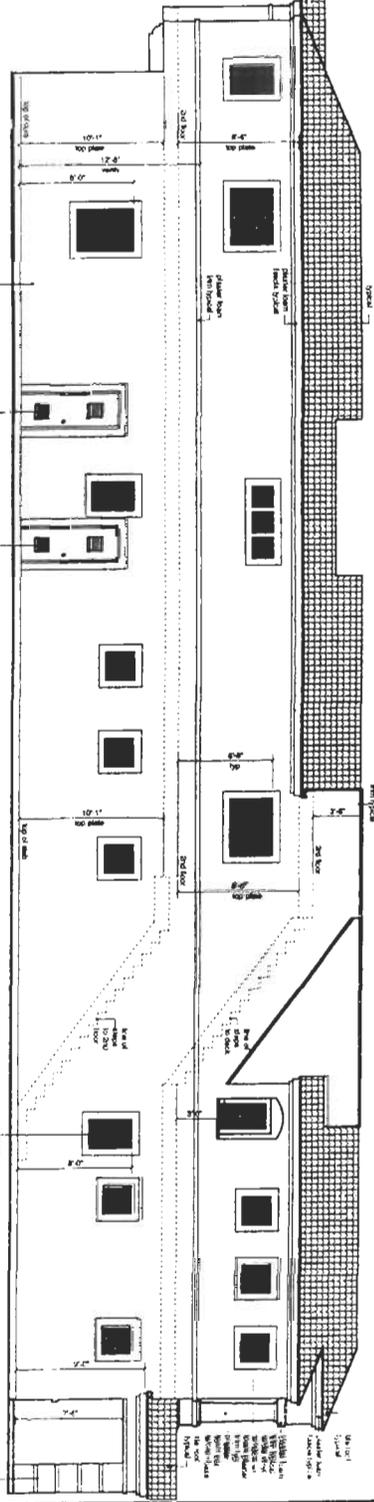
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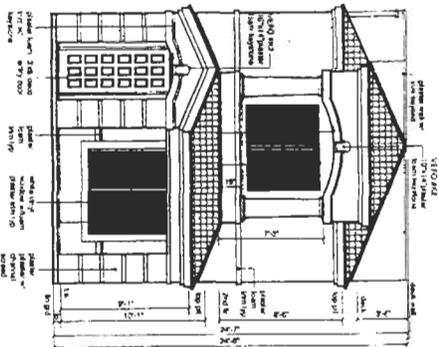
COASTAL COMMISSION
5-05-385
EXHIBIT # 2
PAGE 1 OF 1



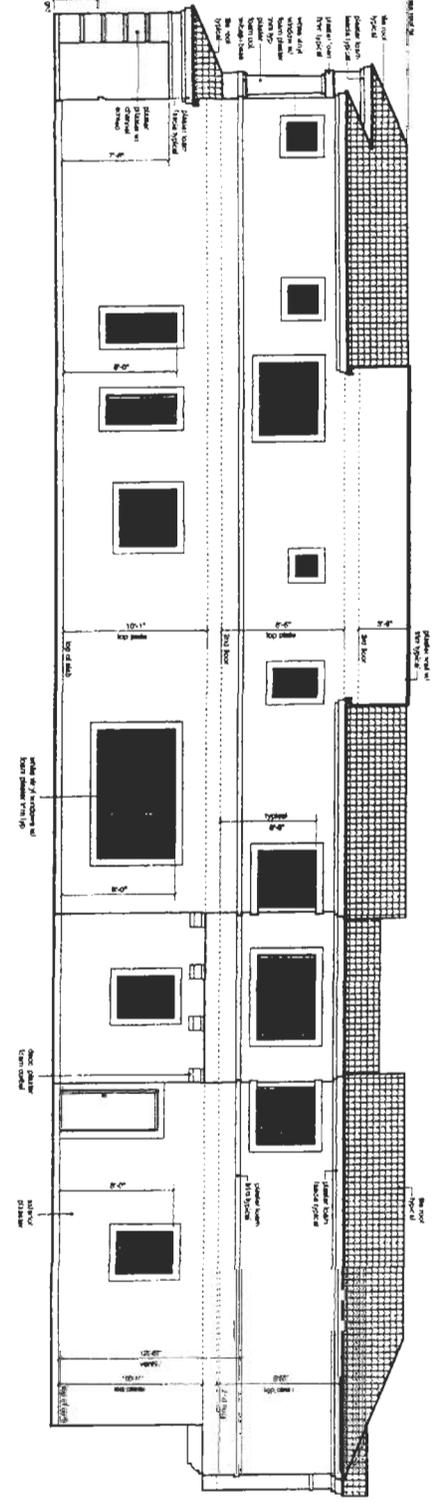
ALLEY ELEVATION



SIDEYARD ELEVATION



Scale: 1/8"=1'-0"
STREET ELEVATION
PLAN 1C
Exterior colors to be determined



COURTYARD ELEVATION

COASTAL COMMISSION
 5-05-385
 EXHIBIT # 3
 PAGE 3 OF 3

A-8	DATE	REVISIONS	Project	Client	Architect
			SINGLE FAMILY HOME	SEAL BEACH SIX, INC	BEGOVICH+HAUG
			Plan 1C: 5th STREET	13581 PLACID CIRCLE	ARQUITIBOTS
			SEAL BEACH, CA	HUNTINGTON BEACH, CA 92647	2450 E. Spring St., Ste 118 Long Beach, CA 90806
				714-726-6183	622.993.1174



865 South Figueroa Street
Suite 104
Los Angeles CA 90017

Telephone (213) 680-0900
Telefax (213) 623-8240

March 2, 2006

Mr. Randy Allison
Seal Beach Six, Inc.
8322 Seaport Drive
Huntington Beach, California 92646

Dear Mr. Allison:

Pursuant to your request, we have completed our analysis of the coastal lodging market and the effect thereon by the proposed deletion of the 23-room Seal Beach Inn and Gardens.

In order to develop our conclusions as to the impact upon the coastal supply of the proposed closing of the subject property, we have evaluated the overall Long Beach, Seal Beach, Sunset Beach, and Huntington Beach coastal lodging supply, as well as presented the historical performance of a sample set of hotels therein. We have also researched the projected additions to supply within the next five years, as well as evaluated a memo written by Gene Sugita, the general manager of the Pacific Inn in Seal Beach.

This report is subject to the General Statement of Assumptions and Limiting Conditions presented in the Addenda.

SUBJECT PROPERTY OVERVIEW

The subject is the Seal Beach Inn and Gardens, a 23-room Bed and Breakfast constructed in 1940. The property is in fair condition and offers limited public space and no outside amenities that are offered to the general public. Furthermore, in analyzing the subject property, we have concluded the following:

- 1) The property is located in a primarily residential neighborhood and does not match the surrounding uses;
- 2) The property has insufficient parking (11 spaces) and is in violation of CUP due to the lack of off-site parking;
- 3) The property is in fair condition and is in need of renovation and updating in order to achieve modern lodging standards and remain aesthetically pleasing.

In order to achieve these points, specifically two and three, the subject would require significant capital expenditure, which based on the current operating performance of the property and the competitive market set, is not economically feasible.

Existing Lodging Supply

In terms of the coastal lodging supply, we have analyzed both the overall market and a more detailed sample set of properties. The overall coastal markets of Long Beach, Seal Beach, Sunset Beach, and Huntington Beach contain the following properties totaling approximately 7,100 rooms.

Huntington Beach, Seal Beach, Sunset Beach, Long Beach Lodging Market					
Property	Room Count	Opening Date	Property	Room Count	Opening Date
777 Motel	42	Jun-90	Howard Johnson Express Ritz Inn	65	Jun-91
Americas Best Value Inn & Suites HB	18		Huntington Suites	66	Jun-65
Ana Mesa Suites	48	Nov-92	Hyatt Regency Huntington Beach	517	Jan-03
Ayres Hotel Seal Beach	112	Jun-02	Inn @ Costa Mesa	50	
Beach Inn Motel	38		La Quinta Inns John Wayne Airport	159	Jun-80
Beach Plaza Hotel	40	Jun-75	Lakewood Inn Motel	48	Jun-83
Best Western Cypress Inn & Suites	72	Jan-91	Long Beach Inn	29	
Best Western Golden Sails Hotel	173	Jun-66	Marina Motel	36	Jun-50
Best Western Huntington Beach Inn	50	May-88	Marriott Long Beach	311	May-87
Best Western Los Alamitos Inn & Suites	45	Jun-89	Motel 6 Costa Mesa	94	
Best Western Newport Beach Inn	49	Jun-70	Motel 6 Los Angeles	42	
Best Western Palm Garden Inn	48	Jun-89	Motel 6 Westminster	98	
Best Western Regency Inn	64	May-86	Motel 6 Westminster North	127	Jun-85
Best Western Westminster Inn	44	Jun-82	New Harbor Inn	32	Jun-93
California Palms Suites Inn	208		Newport Channel Inn	30	Apr-62
Coast Motel	25		Ocean View Motel	30	
Comfort Inn Los Angeles	68	Jun-86	Pacific Inn	70	Jun-86
Comfort Suites Huntington Beach	103	Jun-88	Princess Inn	29	
Costa Mesa Motor Inn	235		Queen City Motel	44	Jun-68
Courtyard Orange County Cypress	180	Oct-88	Ramada Limited Fountain Valley	68	Jun-86
Courtyard Orange County HB	150	Mar-91	Ramada Limited Sunset Beach	50	Jun-83
Courtyard South Coast Metro	145	Aug-87	Residence Inn Cypress Los Alamitos	155	Nov-02
Crazy 8 Motel	31	Jun-81	Residence Inn Fountain Valley HB	122	Mar-91
Dons Motel	34	Nov-92	Residence Inn Long Beach	216	Jul-87
Dons Turf Motel	43		Sandpiper Inn	24	
Econo Lodge Sunset Beach	25	Jun-88	Sea Port Marina Hotel	240	Jan-68
Executive Suites Inn	29		Seal Beach Inn & Gardens	23	Jun-20
Extended Stay America HB	104	Dec-98	Starlite Inn	34	Jun-82
Extended Stay America Long Beach	134	Nov-97	Sun N Sands Motel	17	Jun-66
Garden Grove Inn	100	Jun-73	Super 8 Costa Mesa	71	Jun-65
Guesthouse Inns Hotel Long Beach	140	Jun-80	Super 8 Long Beach	49	Jun-61
Harbour Inn B & B	25	Feb-89	Super 8 Westminster	32	May-86
Hilton Waterfront Beach Resort	290	Jul-90	Tahiti Inn Motel	20	
Holiday Inn Express Hotel & Suites GG	98	Mar-03	Trade Winds Motel	29	
Holiday Inn Long Beach Airport	222	Jan-69	Travelodge Westminster	60	Apr-90
Homestead Cypress Long Beach	134	Sep-98	Vagabond Inn Costa Mesa	127	Jun-70
Hospitality Inn	53	Jun-73	West Garden Inn	55	Jun-84
Hotel Huntington Beach	224	Apr-88	Westminster Motor Inn	35	Jun-69
Hotel Inn	30	Jun-89	Woodfin Suites Cypress	124	Feb-91
Total				7,101	

Source: PKF Consulting

We have developed a sample set of properties from these markets, focusing on waterfront and ocean-proximate properties within the designated markets. We have gathered historical operating performance on these properties, and they represent a reflective sample of properties from the coastal markets. The following presents the properties and their respective room counts.

EX. 4
2/6

The Seal Beach Inn Historical Market Supply	
	2006
The Seal Beach Inn	23
Pacific Inn	70
Best Western Golden Sails	173
Ocean View Motel	30
Ayres Hotel Seal Beach	112
Guest House Inn	140
Econolodge Sunset Beach	25
Ramada Limited Sunset Beach	50
Comfort Suites Huntington Beach	103
Star Light Inn Huntington Beach	34
Hyatt Huntington Beach	517
Hilton Waterfront	290
Hotel Huntington Beach	224
Competitive Market Total	1,791
% Change	0.0%
Source: PKF Consulting	

The following table presents a five-year period of historical rooms supply, rooms demand, and the resulting occupancy.

Historical Market Performance of the Competitive Supply					
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy
2001	424,130	N/A	268,293	N/A	63.3%
2002	446,030	5.2%	266,298	-0.7%	59.7
2003	653,715	46.6	405,848	52.4	62.1
2004	653,715	0.0	431,049	6.2	65.9
2005	653,715	0.0	455,806	5.7	69.7
CAAG	11.4%		14.2%		
Source: PKF Consulting					

With the addition of the Ayres Hotel in 2002 and the Hyatt Huntington Beach in 2003, this representative set posted an annual average increase in supply of 11.4 percent over the last five years. Occupied rooms, on the other hand, increased at 14.2 percent on a CAAG basis. Though growth in total rooms demanded has exceeded growth in supply, this market has continued to operate in the low to high 60 percentile range, pointing towards additional capacity for demand. Other coastal areas such as Santa Monica and San Diego have historically operated in the mid 70s to low 80-percentile range. Therefore, we see sufficient additional capacity available in the market, and the market would not be adversely affected by the deletion of the 23-room subject.

Additions to Supply

As further support, we have also presented the proposed additions to supply for these markets. The proposed additions to supply are as follows:

EX. 4
3/6

The Seal Beach Inn					
Proposed Additions to the Supply					
	2006	2007	2008	2009	2010
ADDITION TO SUPPLY					
The Strand Hotel		150			
Hampton Inn Seal Beach 308 & Seventh		110			
Mayer Site				200	
Pacific City			200		
Total Additions		270	470	670	670

The 150-room Strand Hotel is projected to open in mid 2007. Consisting of 226,536 square feet, the Strand will include retail, restaurants, offices, a 150-room hotel and a 411-space underground parking structure.

The city of Seal Beach has approved a 110-room hotel to be located on the former Boeing site. This is projected to open in mid 2007 as a Hampton Inn.

A 10-room B&B has been approved at 308 7th Street, which we estimate will open in 2008.

On June 7, 2004, the Huntington Beach City Council approved a 31-acre mixed use development on Pacific Coast Highway between First and Huntington Streets, currently owned by Makar Properties. The Pacific City development will feature a mix of residential condominiums and town homes, a retail promenade, and 200-room boutique hotel. This property is projected to open in 2008.

We are also aware that a full-service resort is expected to be built adjacent to the Hyatt Huntington Beach on the north side of Twin Dolphin Street in Huntington Beach. This property is expected to contain 200 rooms. This proposed resort is being developed by the Robert Mayer Corporation. We estimate that this property will open in 2009.

As can be seen, there are a number of proposed limited and full service new lodging properties under development. These, along with the existing supply of properties, will continue to enhance the coastal lodging supply of Los Angeles and Orange County. However, with the historical operating performance of these properties and the projected growth in supply, we do not see an adverse impact to the coastal lodging supply in the deletion of the 23-room subject and conversion to alternate use. Furthermore, there are a number of parcels zoned for hotel use or requiring a special use permit to develop lodging facilities. With continued growth in demand, these will also be developed, further expanding the coastal lodging supply.

Additional Support

As previously stated, we have also reviewed a memo written by Gene Sugita, General Manager of the Pacific Inn in Seal Beach, which has been included in the addenda. The letter states that the Pacific Inn, though running at an annual occupancy of approximately

EX. 4
4/6

79 percent, has several periods during the year where it is operating at 65 percent. With 23 rooms at the subject operating at 67 percent, the 70-room Pacific Inn alone could absorb a majority of the demand associated with the subject. The letter also states that nearby properties such as the Sea Port Marina, the Best Western Golden Sails, the Guest House Inn, and the Ayres Hotel can also accommodate the displaced demand.

CONCLUSION

The subject is located in a primarily residential neighborhood, with limited guest amenities and restaurants within walking distance. The condition of the subject is fair and the upgrading of these facilities does not appear to be economically feasible. The coastal lodging supply, given the number of additions in the coming years, the historical performance of the current supply, and the limited room count at the subject, would not be negatively impacted due to the deletion of the subject's rooms. The direct lodging supply in the subject's market alone will increase by 120 rooms in the next two years with the addition of the 110-room Hampton Inn and a 10-room Bed and Breakfast. Factoring in the deletion of the subject's 23 rooms, this would still lead to a net increase of 97 rooms. The extended market will increase by an estimated 670 rooms by 2009. We therefore find that the subject could be converted to an alternate use with no impact to the coastal lodging supply and the availability of coastal lodging product.

We appreciate your cooperation extended to us during the course of our engagement and would be pleased to hear from you if we could be of further assistance in the interpretation of our findings and recommendations.

Sincerely,

PKF Consulting



By Bruce Baltin
Senior Vice President

Ex. 4
5/6



Apulia VE 16220 | Amalfi VE LGB089 | SABRE VE 12291 | WixiteSign VE 193

January 17, 2006

To Whom It May Concern:

My name is Gene Sugita and I am writing in regards to the closure of the Seal Beach Inn. I have served as the General Manager of The Pacific Inn in Seal Beach, formerly the Radisson Inn of Seal Beach, for the past three years. Prior to working directly for the property, I served as the Director of Operations with ASI Management overseeing the property for two additional years. Throughout my five plus years of service for The Pacific Inn, I have gained in depth knowledge of the area and market.

At an annual occupancy of about 79% and only 65% occupancy during the slow season, The Pacific Inn alone can easily absorb all 23 rooms at certain times of the year. There are other existing hotels in the market that can help absorb the loss of 23 rooms as well. These hotels include the Sea Port Marina, Best Western Golden Sails, Guest House Inn, and the Ayers Hotel. Thus, the loss of 23 rooms will easily be absorbed by the market.

In addition to the existing market's ability to absorb the loss of 23 rooms, there is a planned net gain in rooms per night in the coming year. With the proposed 110 room Hampton Inn in Seal Beach and 11 room Bed & Breakfast on 7th Street, there will actually be a net gain of 98 rooms per night in the market.

Considering the net gain of 98 rooms per night, the closure of the Seal Beach Inn actually helps balance out the change in available rooms per night in the market. Combined with the Market's ability to easily absorb the loss of 23 rooms, the impact of losing 23 rooms a night is negligible.

I appreciate your time and consideration regarding my comments. If you have any questions or concerns, please feel free to contact me.

Sincerely,

Gene Sugita
General Manager

EX. 4
6/6

04/10/2006

To: Ms. Anne L. Blemker, California Coastal Commission

Re: List of Efforts to Sell The Seal Beach Inn as an Operating Inn

During a meeting on March 27, 2006 with 3 staff members of the Coastal Commission, Marjorie Bettenhausen Schmaehl, the owner of The Seal Beach Inn & Gardens, explained that she had unsuccessfully attempted for an extended time to sell The Inn as a operating inn to new owners, including a highly successful innkeeping/management company called The Four Sisters. However, due to the age and condition of the buildings and the modest income from its operation, The Four Sisters as well as numerous other prospective buyers decided they could not afford to continue to operate The Inn in the future.

This letter and attachments are in response to Theresa, Area Supervisor's request that we send information about our attempts to sell The Seal Beach Inn as a operating inn.

The Seal Beach Inn & Gardens has only 23 rooms and a manager's living quarters. Yet, it requires 20-24 persons working shifts to operate and maintain it, excluding the owning couple's nearly full-time involvement. Staffing like this is normal for very high end lodging properties with better incomes than ours. In addition, periodic outside services are necessary. The Inn operation is not economically viable to continue. There is no economy of scale, a poor layout, aging and decaying buildings, old plumbing and more, despite the appealing artistic façade.

One of the earliest interested sale prospects were Mr. and Mrs. Tatsumi. Around 1991, Carol Tatsumi was an employee who was familiar with The Inn operation. Her husband made an offer to buy The Inn subject to reviewing the finances. Mr. Tatsumi was an accountant. After reviewing the finances, the Tatsumis decided the income on their investment was not sufficient to merit buying The Inn. The Tatsumis appear to have moved from Long Beach since.

In 1997, Eduardo Alondo, a Venezuelan investor and commercial

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PAGE 1 OF 12

pilot, offered to buy The Seal Beach Inn. He then qualified himself by showing us his bank account records and his apartments in Redondo Beach, CA as proof of financial worthiness. We then provided our financial information. In our negotiations for the sale, he was not able to fulfill his financial obligations and had to back out of the sale.

Mr. Lyman Robbins is, to our knowledge, California's most active bed and breakfast inn broker. We had very intense contact with Mr. Robbins between 1998-2000 and the following years regarding The Inn. We asked him to find a buyer for our Inn. He visited Seal Beach, stayed at The Inn, surveyed the Southern California area to develop a Broker's Assessment. He obtained all information about our income and expenses, average daily rates, annual occupancy statistics and all other details about The Inn. It was a laborious effort. While we know him to successfully sell many California inns, no sale resulted from his efforts. (A letter from him is attached.)

In 2000, a former General Manager, Britta Kjellstrand, brought a wealthy friend, a medical doctor's wife as a prospective purchaser of The Inn. After the discussions about income and financial information, there was no further interest.

Since 2001 and up until the present, The Inn's General Manager, Michelle Kelly, had repeatedly expressed an earnest interest to buy and operate The Inn. She looked into small business financing, limited partnerships and other schemes of making a purchase possible. However, in reviewing the extensive repairs needed, the moneys needed to service the debt of the purchase, and the ongoing expenses to operate The Inn, it became evident to her and her partner(s) that a purchase would not be possible.

Sharon Russell of Seal Beach Realty and Jim Klisannin of Baytown Realty in Seal Beach are brokers in Seal Beach to whom we told our desire to sell. The Inn was also promoted to Mr. Jim Watson, a Seal Beach investor and owner of shopping centers and office buildings, who inquired about purchasing The Inn, but made no written offer. No public listing was made, in order to not disrupt our business until we had an actual qualified buyer. The realtors were invited to write up and present offers for any one party shows from their serious prospects. In the years of contact, no viable offers resulted.

EX. 5
2/12

In the fall of 2004, we placed an ad in the LA Times to sell The Inn as an operating inn. 9 inquiries resulted, of whom 3 were lenders, 2 were investors with small amounts of money to invest, and 4 were current lodging property owners. At my age, I need to cash out from the Inn sale to pay for medical needs and living expenses. Therefore, the small investors were eliminated. The 4 serious prospects each decided that the ratio of income to money invested was not sufficient to merit buying The Inn. None submitted a written offer.

Bill Popejoy, a 30-year investor had an interest in owning and operating The Inn. He did not return our calls after he obtained the set-up (financial) information. A Harry Dietz was interested in purchasing The Inn to operate it. He exhibited no further interest after he received financial details.

In 2003-2004, a Chinese commercial broker from LA called repeatedly with some new client. (See his attached one party show proposal.) The broker took the prospect to The Inn and toured The Inn and reviewed the incomes and expenses with no acceptable offer coming forth.

In the summer and fall of 2004, as a licensed California real estate broker, Harty Schmaehl, the owner's husband personally undertook to contact various area businessmen and developers working in Seal Beach. No viable offers to buy The Inn as an inn resulted. Our notes indicate that among those contacted were the following:

Jim Haskett,	546 Ocean Ave, SB	562 592 9924
Mr. Gallagher	122 11 th St, SB	562 598 2215
Mark Helux	1007 Seal Way, SB	562 430 2671
Mr. Pettigrew		562 494 0404

Again, there was not much viable interest nor offers for The Inn.

In late 2004 and the spring of 2005, Rivendell Development of Dallas, Texas, Stephen Meek, President, did feasibility studies of building a lodging facility on the 11 acres in Seal Beach known as the DWP land on 1st Street. During that time, Mr. Meek stayed at The Seal Beach Inn. He expressed that he had a serious desire to purchase The Seal Beach Inn as a part of their effort. They considered all The

Ex. 5
3/12

Inn's information for months, but in the final analysis were not able to make an offer of purchase for The Inn as an operating Inn. This was one of the best qualified and motivated prospects, but their feasibility studies indicated that the area lodging market was saturated with existing, affordable lodging, already. They dropped all their Seal Beach efforts. (See the attached Meek letter regarding this.)

Gary Kruger, ReMax Realtor of Villa Park, began to actively and enthusiastically promote The Inn as an operating inn in 2004-2005. He promoted The Inn to numerous prospects. No sale resulted. (See attached letter and one party show contracts.)

Terry DeBay, experienced commercial real estate broker with Ramsey-Shilling Brokerage, actively promoted the sale of The Inn as an ongoing operation in 2004-2005. He had several prospects, but none could pencil out the income to keep operating The Inn as a lodging facility. (See attached letter from Terry DeBay.)

We contacted The Four Sisters Inns, a highly successful country inn owning and management company which owns and operates The Blue Lantern Inn in Dana Point, regarding their possibly purchasing The Inn to operate as one of their inns in California. One of their inn owners, Mr. and Mrs. Dan Parks, attorney-innkeepers, owners of The Inn at Sonoma came, stayed with us in Seal Beach and offered to purchase The Seal Beach Inn. Shelley Claudel, President of Four Sisters Inns, acting as the Parks' representative, came to look at The Inn and review the finances prior to the written offer being made. The Parks subsequently backed out of the purchase. Ms. Claudel stated in a letter to us, "After reviewing the financial statements and analyzing the amount of deferred maintenance, I determined it (The Inn) would not be a financially viable business for us to pursue." Dan Parks, 620 Broadway, Sonoma, CA 95476. 707 938 8409. (Attached is a letter from Ms. Shelley Claudel of Four Sisters Inns.)

Mr. Hendon Harris is the principal of Sentry Home Loans/Real Estate, Springfield LLC and other companies based in Camarillo, CA. Mr. Harris deals with business buyers and investors, and is also a business loan broker in California, currently a major developer of businesses and shopping centers in Adelanto, CA. As a lifetime acquaintance, he has had an open offer to bring a purchaser for The

EX. 5
4/12

Inn. However, no offers have resulted. (Mr. Harris will be sending a letter concerning this, which we will forward.)

Several offers to buy The Inn to continue operating it as an inn have been verbally made. One was a doctors group from Arizona. We encouraged them to make a written offer, but they delayed and then declined to write an offer. Another call came from a Seal Beach group of friends who claimed they wanted to keep operating The Inn as an inn. They also declined to make a written offer.

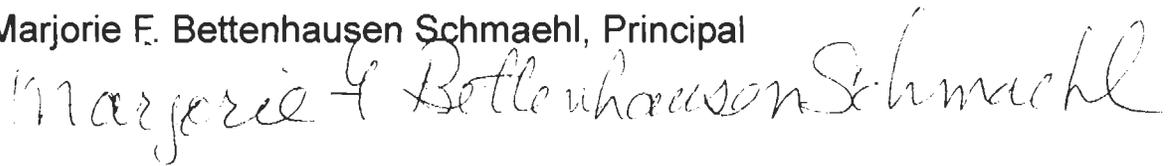
There have been up to a dozen calls to The Inn desk staff from persons claiming they wanted to buy The Inn, stating they wanted to keep it operating as an inn. We have had to conclude that these calls were from unqualified prospects or maybe even cruel hoaxes which raised the hopes of The Inn's staff, but were lacking in substance. None of these offers were put in writing.

We tried for years to find a viable buyer who would keep operating The Inn. It would have pleased us greatly to have seen The Inn continue operating as an inn. However, we have not had any offers to buy The Inn, even having priced it at little more than land value.

We have realized and have needed to accept that the age and condition of The Inn, the great amount of money needed to replace almost all roofs, the extensive earthquake-proofing needed, extensive deferred maintenance needed, which are nearly impossible to pay for with the modest present income to outgo ratio, would, in fact, be totally impossible for a new owner to pay for. My age, health and limited finances prohibit me from continuing to operate the Inn. I now need to sell it. Our lots are zoned residential and are located in a totally residentially zoned area.

We appeal to the California Coastal Commission to approve our application.

Marjorie F. Bettenhausen Schmaehl, Principal

A handwritten signature in cursive script that reads "Marjorie F. Bettenhausen Schmaehl".

EX. 5
5/12

Lyman Robbins
100 E Street #215, Santa Rosa, California 95404

Commercial Real Estate Broker, CCIM
707-547-2770

April 4, 2006

Harty Schmaehl
Seal Beach Inn & Garden
212 Fifth Street
Seal Beach, CA 90740 harjie@camasnet.com

Subject: Seal Beach Inn

Dear Harty,

This is to confirm that I have visited the Seal Beach Inn , spent the night there, and inspected the property to form a Brokers Opinion of Value.

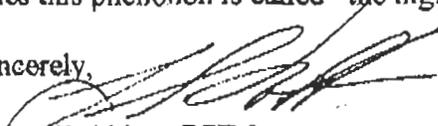
The age and condition of the property create a very high expense ratio. Although it is very close to the Pacific Ocean and is attractive for lodging other nearby lodging properties are less expensive.

It is also very attractive for single family homes which are worth more.

This is not an unusual situation, it is very common in Northern California also.

As a result some former Bed and Breakfast ins are now being converted to residences . Sometimes this phenonon is called "the highest and best use."

Sincerely,


Lyman Robbins, CCIM

EX. 5
6/12

RIVENDELL DEVELOPMENT

March 29, 2006

To whom it may concern:

My company, Rivendell Development, whose partners include Murchison Capital of Dallas, TX, had an interest in acquiring the Seal Beach Inn and Gardens in Seal Beach, CA. At the time, in late 2004, we had under contract the 11 acre property at the corner of Ocean Avenue and First Street in Seal Beach ("DWP" property) for residential or hotel or mixed-use development.

We evaluated the Seal Beach Inn and Gardens as an inn and operating business whose underlying zoning would permit development as single family at some future date. We found that the investment return as an inn did not make the acquisition feasible. What led us to this conclusion was the seasonal rental income and age of the buildings and the availability of other inexpensive hotel rooms in the Seal Beach area. On the DWP property, we reached the same conclusion that the highest and best use would be residential development rather than hotel or vacation use.

As a result of our findings, we dropped our purchase of the DWP property and our pursuit of the Seal Beach Inn and Gardens.

If you have any questions, feel free to contact me.

With all best wishes, I am

Sincerely



M. Stephen Meek
President

Ex. 5
7/12



FOUR SISTERS INNS

April 6, 2006

Mr. Harty Schmaehl
Post Office Box 1492
Kamiah, ID 83536

Dear Mr. Schmaehl:

This letter is to reconfirm that Four Sisters Inns looked at the possibility of purchasing The Seal Beach Inn in year 2005. After reviewing the financial statements and analyzing the amount of deferred maintenance, I determined it would not be a financially viable business for us to pursue.

If you have any further questions, please give me a call.

Sincerely,

Shelley Post Claudel
President
Four Sisters Inns

Ex. 5
8/12

SENTRY HOME LOANS

187 E. Wilbur Road, Suite 12 • Thousand Oaks, CA 91360 • (805) 497-3104

April 12, 2006

Anne L. Blemker
Coastal Program Analyst
California Coastal Commission
200 Ocean Gate 10th Floor
Long Beach, Ca. 90802-4416
Tel: (562-590-5071
Fax: (562)590-5084

RECEIVED
South Coast Region

APR 14 2006

CALIFORNIA
COASTAL COMMISSION

Dear Ms. Blemker,

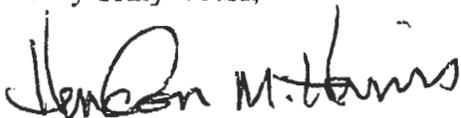
I am a licensed California Real Estate Broker. I am also a 26-year principal of Sentry Home Loans and primarily work with investors, commercial business development and in business administration.

Several years ago, Marjorie Bettenhausen Schmaehl asked me to find a buyer for The Seal Beach Inn and Gardens, which I believe she has operated for more than 20 years. Unfortunately, the Seal Beach Inn's expenses of operation are not sufficiently offset by enough income to make it feasible for a new buyer to have a profit.

The property is quaint and attractive, but the buildings and equipment are in need of a lot of additional expensive deferred maintenance and repairs in buildings that are worn out.

I have not been successful in finding a buyer for Marjorie Schmaehl's inn. A buyer who could run it profitably as an inn. That is because the new buyer would have a business needing significant capital investment for renovation in addition to the purchase price and then would still have a day-to-day business operating at a loss.

Very Truly Yours,



Hendon M. Harris
Principal/ Sentry Home Loans/ Springfield, LLC

EX. 5
9/12

RamseyShillingCo

COMMERCIAL REAL ESTATE SERVICES, INC.

April 4, 2006

Marjorie Bettenhausen-Schmaehl
P.O. Box 1492
Kamiah, ID 83536-1492

Terry Debay
Ramsey - Shilling Commercial Investment Brokers
260 Newport Center Dr. #109
Newport Beach, CA 92660

Re: The Seal beach Inn, as an investment

Dear Ms. Bettenhausen-Schmaehl

I have presented the Seal Beach Inn as a potential investment to several of my clients and associates who specialize in the owning and operation of this type of commercial property.

The result of analyzing the pro-forma projected positive cash flow return on the required investment dollars to purchase the Inn appears to be "non-existent" (a huge negative cash flow projection). Two of my investors clearly stated that the only purpose any half way astute investor would buy the property... was for the ground value. To purchase "The Inn", and try to run it as an "Inn", makes no (Zero) sense economically.

Some of the reasons... The current "Seal Beach Inn", has serious competition from numerous "near by" facilities which more than compete, price wise, and offer a much wider selection of physical and emotional amenities. Other advantages include proximity to all of Seal Beach's shopping and dining facilities and of course, everyone's access to the Pacific Ocean.

There will also be higher costs to make repairs and maintain the property due to the age and current condition of the facility. Plus the on going difficulty of keeping good help and the "seasonality" of the income would makes the Inn, at market value, (the ground value) impractical to operate effectively or to at least come close to "breaking even", not with standing... "making the investor a profit".

My suggestion to the owner is to sell the property at "ground value" (it's only true value) and let it be developed into the single family homes that the surrounding area deserves and dictates should be there.

Regards,



Terry Debay
Broker

EX. 5
10/12

Gary Kruger
Re/Max Real Estate Services
17767 Santiago Blvd., Ste. 610, Villa Park, CA 92861
(714) 637-2272 – Fax
(714) 425-2116 – Cell

April 3, 2006

Marjorie Bettenhausen Schmaehl
P.O. Box 1492
Kamiah, ID 83536

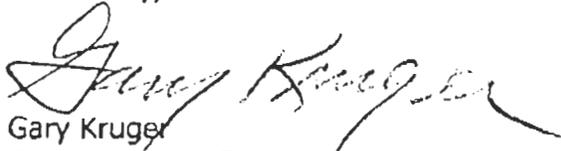
Dear Mrs. Schmaehl,

In working with you these past two years on the potential sale of The Inn, I have spoken with numerous individuals regarding the financial aspects of operating The Inn as an inn, as opposed to removing the present structure and creating new construction. Each time that the actual finances of The Inn are presented to potential purchasers, and its' location and condition are examined, the parties felt that a hotel type operation was not viable.

All felt that The Inn needed great renovation, at a great cost. In addition they did not feel that the location gave convenient access to the center of activity of Seal Beach, and they were definitely put off by the income as opposed to the price.

It is my opinion that the highest and best use of the property is to use the lots for residential new construction, which is its' present zoning.

Yours truly,


Gary Kruger
Consultant and Realtor

Ex. 5
11/12

Gary Kruger Re/Max Real Estate Services

17767 Santiago Blvd., Ste. 610,
Villa Park, CA 92861
(714) 279-3378 === Business Line
(714) 425-2116 === Cellular Line
(714) 489-2131 === Personal Fax

One Party Show Agreement

Seller, Marjorie Bettenhausen Schmaehl, hereby grants to **Broker Re/Max Real Estate Services**, beginning date **March 12, 2005** and terminating **May 11, 2005**, the non-exclusive right to show the property located at 212 5th St., Seal Beach, CA 90740 to **Dan Richards and/or his assignee** for purposes of sale of the aforementioned property.

Seller is asking a price for the subject property of \$[REDACTED]. Should an offer from the above individual and/or his assignee be made on the property and that offer be accepted, then upon closing of said sale, **Seller** shall pay **Broker 2.5%** of the selling price as a commission.

This is a contract for only the above individual and/or his assignees, and does not constitute a contract for other services.

Seller Marjorie Bettenhausen Schmaehl Date 3/11/2005

Seller's Address P.O. Box 1492, KAMIAH, ID 83536-1492
Seller's Phone (208) 935 2322 Seller's E-Mail marjie@camasnet.com
Seller's Fax (208) 935 2422

Broker Re/Max Real Estate Services By Gary K Kruger
Gary Kruger

Date March 11, 2005
Address: 17767 Santiago Blvd., #610, Villa Park, CA 92861
Phone 714-425-2116 Fax 714-489-2131
E-Mail garykruger@sbcglobal.net

Ex. 5
12/12



HOSTELLING INTERNATIONAL

for Seal Beach

LOS ANGELES COUNCIL

1434 Second Street
Santa Monica, CA 90401
T 310.393.6263
F 310.393.1769
www.lahostels.org

RECEIVED
South Coast Region

DEC 15 2004

December 14, 2004

CALIFORNIA
COASTAL COMMISSION

Ms. Deborah Lee, Deputy Director
California Coastal Commission
200 OceanGate; 10th Floor
Long Beach, CA 90802-4416

Dear Deborah,

In my letter of June 28, 2004 to Peter Douglas, I reported that the expansion of the Santa Monica hostel had run into delays and obstacles as a result of required design changes. I also reported that our architect had completed new drawings for a revised construction and renovation plan, that we were in the process of having the plans approved by the City of Santa Monica, and that we planned to begin construction in October 2004.

I am happy to report that on October 18, 2004, we received our building permit and that we began work on the hostel expansion and renovation. Originally, we were planning to add to the existing structure, as opposed to our current plan to provide the additional beds within the current building footprint. Unfortunately, the two-year struggle with the City over the structural design has resulted in substantial cost escalation due to a higher cost for building materials and labor costs associated with workers compensation insurance. Additionally, our building permit has triggered a requirement to upgrade our building to current seismic retrofit standards. The cost savings that we anticipated by changing our design have not materialized due to these increased costs.

Because of the foregoing circumstances, we are requesting an amendment to our request of October 24, 2002, to use \$611,427 from the Coastal Commission Grant funds, by increasing our request to \$823,700. This increase of \$212,273 represents a prorated amount based on the original Coastal Commission grant amount of \$1,661,129 [i.e., $(\$1,661,129/121)*60=\$823,700$]. A copy of the Sources and Uses of Funds for the project and a construction timeline is enclosed. In the proposed budget for this phase of the project we have allocated 95% of the \$823,700 to construction costs and 5% to administrative fees.

COASTAL COMMISSION
5-05-385
EXHIBIT # 6
PAGE 1 OF 3

We sincerely apologize for the delay in beginning to utilize the funds for providing the additional sixty beds in the coastal zone as stipulated in the grant. We were clearly blind sided by City of Santa Monica permit process, which for months gave us conflicting information on the original design. As the process continued the changes required by the city made the original plan financially unfeasible. While the revised plan is more than we originally budgeted, it is still lower than if we had pursued the original design.

We hope that you will look favorably on our request and can advise us of your decision as soon as possible as we are now under construction and would like access to the funds in the near future.

If you should have any questions regarding this matter please give me a call at 310-393-6991 x 25.

Sincerely,



John Estrada,
Executive Director

CC: Teresa Henry, District Manager
South Coast District Office

Enclosures

COASTAL COMMISSION
5-05-385
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PAGE 2 OF 3

DEC 15 2004

HI-Santa Monica Hostel Expansion Project
Sources and Uses of Funds

CALIFORNIA
COASTAL COMMISSION

	Phase I Actual	Phase II Budget	Total
Sources of Funds			
HI-AYH Funds	\$ 355,265	\$ 303,028	\$ 658,293
SM City Funds	\$ 126,032	\$ 753,272	\$ 879,304
Coastal Commission (Construction)	\$ -	\$ 782,515	\$ 782,515
Coastal Commission (administrative)	\$ -	\$ 41,185	\$ 41,185
Totals	\$ 481,297	\$ 1,880,000	\$ 2,361,297
Uses of Funds			
Legal Fees	\$ 5,635		\$ 5,635
Hostel Impr.	\$ 11,585	\$ 80,000	\$ 91,585
Permits	\$ 4,428	\$ 5,000	\$ 9,428
Owner Rep.	\$ 20,913	\$ 90,000	\$ 110,913
Architect	\$ 50,301	\$ 170,000	\$ 220,301
Misc.(hostel)	\$ 50,923	\$ -	\$ 50,923
Construction	\$ 337,512	\$ 1,350,000	\$ 1,687,512
Contingency		\$ 162,000	
Surveys		\$ 5,000	
Admin		\$ 18,000	
Totals	\$ 481,297	\$ 1,880,000	\$ 2,361,297

Total Coastal Commission Grant of \$1,661,129 for 121 beds (**\$13,728 per bed**)
Coastal Commission funding request is equal to \$13,728 per bed times 60

Coastal Commission Funds (Construction) equal to cost of 60 beds less 5%
Coastal Commission Funds (Administrative) equal to 5% of \$823,700
Total Coastal Commission contribution \$823,700

COASTAL COMMISSION
5-05-385
EXHIBIT # 6
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